

Message Text

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72

ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 DODE-00 PM-03 H-02 L-02 PA-02 PRS-01 USIA-15

/113 W

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R 070725Z MAR 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 5231

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

CINCPAC

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EA/ANP PASS AMBASSADOR GREEN.

SYDNEY ALSO PASS TRADE CENTER.

CINCPAC FOR POLAD.

EO 11652: NA.

TAGS: EGEN, AS.

SUBJECT: AUSTRALIAN ECONOMIC TRENDS FIRST QUARTER 1975.

1. SUMMARY: AUSTRALIN ECONOMY ENTERED CALENDAR 1975
WITH DETERIORATING TREND IN PRODUCTION AND EMPLOYMENT.

GOA CONTINUED EFFORTS WHICH COMMENCED LAST HALF 1974
TO STIMULATE ECONOMY WTH EMPHASIS ON INCREASED PUBLIC
EXPENDITURE, MONETARY RELAXATION, TAX REDUCTION AND
MOUNTING PROTECTION AGAINST IMPORTS. THIS DRAMATIC

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REVERSAL OF PREVIOUS ANTI-INFLATION MEASURES WILL

PROBABLY PRODUCE TURN-AROUND IN LEVEL ECONOMIC ACTIVITY DURING LATTER PART OF 1975. BUT WITH HIGH CONTINUING INFLATION RATE AND LITTE CURRENT PROSPECT FOR EFFECTIVE INCOMES POLICY, STRONG STIMULATION NOW IN TRAIN RISKS AGGRAVATED INFLATIONARY PROBLEMS IN BALANCE OF 1976 AND 1976. END SUMMARY.

2. STEADY RISE IN UNEMPLOYMENT SINCE MID-1974 EXCEEDED 5 PCT. OF LABOR FORCE BY JANUARY 1975. OTHER EVIDENCES OF DETERIORATION INCLUDED LAGGING RETAIL SALES, DEPRESSED LEVELS OF RESIDENTIAL AND OTHER CONSTRUCTION AND GENERALLY LOWER LEVELS OF INDUSTRIAL OUTPUT.

3. IN DECEMBER 1974 QUARTER CONSUMER PRICE INDEX ROSE 3.8 PCT. MAKING INCREASE FOR 1974 AS A WHOLE 16.3 PCT. (INCREASE FOR ALL GROUPS EXCLUDING FOOD WAS 18.7 PCT.) MEANWHILE, WEEKLY WAGE RATES ROSE OVER 30 PCT. DURING THE YEAR ENDING OCTOBER 1974.

4. SERIES OF GOA MEASURES DURING SECOND HALF OF 1974, INCLUDING CORPORATE AND INDIVIDUAL INCOME TAX REDUCTIONS, INCREASED PUBLIC EXPENDITURE, DEVALUATION PRIMARILY TO DISCOURAGE IMPORTS, REMOVAL OF RESTRICTIONS ON FOREIGN CAPITAL INFLOW AND DRASTIC LIBERALIZATION OF DOMESTIC CREDIT, HAS TRANSFORMED DOMESTIC FINANCIAL SCENE. VOLUME OF MONEY, BROADLY DEFINED, INCREASED IN THE DECEMBER QUARTER OF 1974 AT AN ANNUAL RATE OF 22 PCT. THE FULL EFFECT OF THE DEVALUATION ON IMPORTS IS STILL BEING REALIZED WITH IMPORTS GRADUALLY EASING ALTHOUGH STILL VALUED WELL ABOVE THE LEVELS OF THE CORRESPONDING MONTHS OF THE PREVIOUS YEAR. SIMULTANEOUSLY, EXPORTS HAVE CONTINUED HIGH, SETTING A NEW RECORD OF DOLS A752 MILLION IN JANUARY. AFTER FOUR MONTHS IN WHICH IMPORTS EXCEEDED EXPORTS AUSTRALIA RETURNED IN NOVEMBER 1974 TO AN EXPORT SURPLUS WHICH IS SLOWLY WIDENING.

5. COMBINED EFFECTS OF THESE RESTRICTIVE AND STIMULATORY ACTIONS APPEAR LIKELY TO SLOW DOWN AND EVENTUALLY REVERSE DETERIORATING EMPLOYMENT AND PRODUCTION TREND. DURING PAST WEEKS PUBLIC SENTIMENT UNCLASSIFIED

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HAS BEEN BRIGHTENED BY THE EMERGENCE OF A FEW HIGHLY TENTATIVE HARBINGERS OF SUCH A MOVEMENT. BANK LENDING IS INCREASING. ONE MAJOR BANK, EXPECTED TO BE FOLLOWED BY OTHERS, HAS SLIGHTLY REDUCED ITS LENDING AND DEPOSIT INTEREST RATES. RETAIL SALES ROSE STRONGLY IN JANUARY AND HIGH PERSONAL SAVINGS LEVEL GIVE HOPE THAT REVIVING CONSUMER DEMAND MAY BE SUSTAINED. CONSTRUCTION LEVEL TRENDS HAVE NOT RECOVERED BUT GIVE EVIDENCE OF BOTTOMING

OUT. ABOVE ALL, GOVERNMENT HAS INFORMALLY TIPPED THAT THE FEBRUARY UNEMPLOYMENT DATA, SCHEDULED TO BE RELEASED MARCH 9, WILL SHOW THE FIRST ABSOLUTE DECREASE IN REGISTERED UNEMPLOYMENT SINCE THE SLIDE BEGAN IN 1974. ACTUAL SIGNIFICANCE OF THESE INDICATIONS IS HIGHLY TENTATIVE BECAUSE OF CONTROVERSY OVER SEASONAL FACTORS AS WELL AS THE VERY MODEST AMPLITUDE AND BRIEF DURATION OF MOVEMENTS THEMSELVES. NEVERTHELESS, THEY REPRESENT FIRST TIME A CLUSTER OF APPARENTLY FAVORABLE DEVELOPMENTS HAS SURFACED FOR SOME MONTHS.

6. NOTWITHSTANDING CAUTIOUSLY ENCOURAGING NATURE OF THESE DEVELOPMENTS, UNDERLYING PROBLEM OF CONTINUING AND POTENTIALLY INCREASED INFLATION REMAINS. GOA 1974 BUDGET STRATEGY WAS TO REDUCE TAXES AND INCREASE SOCIAL EXPENDITURES THEREBY INDUCING LABOR MOVEMENT IN RETURN TO ACCEPT A MODERATE FORMULA FOR QUARTERLY INDEXATION OF WAGES TIED TO CPI, AND FOREGO WAGE INCREASES EXCEEDING THIS FORMULA. LABOR UNION RESPONSE HAS BEEN DELAYED AND INCONCLUSIVE. THE FINAL OUTCOME OF THE INDEXATION PROPOSAL, NOW BEFORE CONCILIATION AND ARBITRATION COMMISSION, REMAINS MUCH IN DOUBT. MAJOR UNION GROUPS ARE DEMANDING NOT ONLY A MORE GENEROUS FORMULA FOR INDEXATION BUT ARE RESERVING THEIR RIGHT TO SEEK ADDITIONAL INCREASES OVER AND BEYOND THE INDEXATION FORMULA. MEANWHILE, DEMANDS FOR FURTHER SUBSTANTIAL WAGE INCREASES APPEAR UNABATED. UNDER THESE CONDITIONS PROSPECT FOR EFFECTIVE INCOMES POLICY DURING BALANCE OF 1975 APPEARS HIGHLY DOUBTFUL. THE COMBINATION OF CONTINUING LARGE WAGE INCREASES, SUBSTANTIAL DEFICIT SPENDING AND THE INCREASING IMPACT ON IMPORT PRICES OF LAST YEAR'S DEVALUATION AND CONTINUING MOVES FOR ADDITIONAL PROTECTION, PLUS THE SUBSTANTIAL INCREASES IN UNCLASSIFIED

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LIQUIDITY THROUGHOUT THE ECONOMY AND CONTINUING STRONG EXPORT DEMAND, PROBABLY MAKES ADDITIONAL INFLATIONARY PRESSURES INEVITABLE.
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